

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Marquette County Transit Authority	County Marquette
Fiscal Year End September 30, 2006	Opinion Date January 18, 2007	Date Audit Report Submitted to State March 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Makela, Toutant, Hill & Nardi, P.C.		Telephone Number 906-228-3600		
Street Address 201 West Bluff Street		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name Paul B. Nardi		License Number 1101020870

Audited Basic Financial Statements
Required Supplementary Information
and Other Information

MARQUETTE COUNTY TRANSIT AUTHORITY
MARQUETTE, MICHIGAN

September 30, 2006 and 2005

Audited Basic Financial Statements
Required Supplementary Information
and Other Information

MARQUETTE COUNTY TRANSIT AUTHORITY

Years Ended September 30, 2006 and 2005

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Management's Discussion and Analysis

Using This Annual Report

This annual report includes a series of financial statements for the Marquette County Transit Authority (Authority). The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a long-term view of the Authority's finances. This is the third year of reporting under the GASB #34 reporting model.

The Authority as a Whole

The Authority's current assets as of September 30, 2006, increased by \$302,379 over FY2005 as a result of a favorable increase in the percentage of eligible expenses for federal operations funding. The net capital assets decreased by \$140,507 due to the retirement of old equipment.

The increase in current liabilities and the decrease in long-term liabilities is primarily due to the reclassification of the State Infrastructure Bank loan of \$700,000 due in August 2007 from non-current to current (due within one year). Also contributing to the increase in current liabilities is the amount due to the State of Michigan. State operating assistance payments are received monthly as a percentage of budgeted expenses submitted to the state at the beginning of the year. Actual expenses for the year were significantly less than budget, resulting in a liability to the state for excess payments made to the Authority.

In a condensed format, the table below reflects the financial position of the Marquette County Transit Authority.

	September 30	
	2006	2005
Current Assets	\$ 1,091,185	\$ 788,806
Net Capital Assets	5,974,290	6,114,797
TOTAL ASSETS	7,065,475	6,903,603
Total Current Liabilities	1,244,507	334,370
Long-Term Liabilities	31,395	746,192
TOTAL LIABILITIES	1,275,902	1,080,562
Net Assets		
Invested in Capital Assets, net of related debt	5,228,098	5,354,378
Restricted for capital project	125,000	295,833
Unrestricted	436,475	172,830
TOTAL NET ASSETS	5,789,573	5,823,041
TOTAL LIABILITIES & NET ASSETS	\$ 7,065,475	\$ 6,903,603

The following table reflects the results of operations of the Marquette County Transit Authority:

	Year Ended September 30	
	2006	2005
Operating Revenues	\$ 328,243	\$ 375,833
Non-Operating Revenues - Local	925,618	864,787
Non-Operating Revenues - State	978,960	994,696
Non-Operating Revenues - Federal	411,367	306,403
TOTAL REVENUES	<u>2,644,188</u>	<u>2,541,719</u>
Operating Expenses	<u>2,877,656</u>	<u>2,988,263</u>
LOSS BEFORE CONTRIBUTIONS	(233,468)	(446,544)
Capital asset additions funded with state and federal capital grants	<u>200,000</u>	<u>1,521,718</u>
CHANGE IN NET ASSETS	(33,468)	1,075,174
Net assets at beginning of year	<u>5,823,041</u>	<u>4,747,867</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,789,573</u>	<u>\$ 5,823,041</u>

Operations of the Authority

The Authority's revenues for FY2006 increased by approximately \$100,000 due to a combination of increases in federal operating assistance, local millage, interest income, and intercity ticket sales. The Authority's revenues consist of state (37%) and federal operating (16%) grants and local revenues (35%), which is primarily the local millage. Passenger and contract fares provide approximately 12 percent of revenues.

The Authority's expenses decreased approximately \$100,000 or 3.7 percent for the year ended September 30, 2006. This change is a combination of increased fuel and utilities costs, increased repair parts expense due to an aging fleet, and decreased wage and fringe costs due to budget cuts.

Economic Factors

The Authority relies primarily on state and federal revenues, along with the local millage for operational funding. Given the current condition of the State of Michigan's financial challenges, and our anticipation that these challenges will reach far into the future, we remain hopeful that funding will stabilize at our current level for FY2007 only. Future budgets may not experience the current level of funding percentages from either the state or the federal government. We are anticipating a decrease in federal operating funds for FY2007. The local millage revenues increased in FY2006, but we anticipate this level of funding to stabilize, with little anticipated increase for the next couple of fiscal years. Our greatest challenges will be our growing costs as a result of our aging fleet, increases in health care benefits and fuel costs, retaining current client contracts, and maintaining a healthy cash flow picture.

Budget Review

On the following page is the Authority's operating budget for the year ended September 30, 2006. The following analysis reflects the budget adopted at the beginning of the year and the actual expenditures and revenues for the year ended September 30, 2006. At the end of each quarter of the fiscal year, the budget is reviewed and amended if needed. In prior years, a comparison of original budget to amended budget was also provided in the analysis; however, the budget was not amended in 2006.

Budget Expenditures

Operational costs exceeded the budget by approximately \$557,000. We achieved our efforts to decrease salaries, wages, and fringe benefits below FY2005 levels. However, despite these efforts, these expenses exceeded budget due to the retirement of a key employee. The Authority did not budget for exiting costs, such as the payout of accrued sick and vacation leave. Also contributing to the excess of actual expenses over budget were increased fuel costs due to fuel price fluctuations and the increased volume of repair parts and materials expenditures for our aging fleet. No vehicles were replaced in FY2006. Finally, an estimate for depreciation is not included in the operating budget.

Fiscal Year 2006 Operating Budget--As Amended and Year End Actual

<u>ADMINISTRATION</u>	Adopted FY 2006 <u>Budget</u>	Actual 9/30/2006 <u>Expenses</u>	<u>Variance</u>
Salaries	\$ 178,800	\$ 200,400	\$ 21,600
Fringe Benefits	76,600	89,069	12,469
Legal Services	500		(500)
Auditing Services	5,600	9,657	4,057
Materials & Supplies	8,600	61,319	52,719
Utilities	5,500	4,332	(1,168)
Other Corp Insurance	6,400	9,251	2,851
Travel & Training	4,100	3,853	(247)
Advertising & Promotion	5,000	5,058	58
Computer	6,200	7,482	1,282
Board Per Diem	11,000	13,336	2,336
Miscellaneous	<u>7,200</u>	<u>4,376</u>	<u>(2,824)</u>
Total Administration	315,500	408,133	92,633
 <u>MAINTENANCE</u>			
Maintenance Labor	131,500	125,445	(6,055)
Maintenance Fringe Benefits	67,700	65,057	(2,643)
Repair Service	55,000	33,022	(21,978)
Maintenance Supplies	8,100	28,774	20,674
Repair Parts	<u>132,300</u>	<u>169,720</u>	<u>37,420</u>
Total Maintenance	394,600	422,018	27,418
 <u>OPERATIONS</u>			
Drivers' Wages	786,000	769,307	(16,693)
Dispatch Labor	71,400	79,682	8,282
Operations Fringe Benefits	276,300	268,965	(7,335)
Custodial Wages		31,451	31,451
Radio System Fees	12,300	12,300	
Employee Uniforms	7,000	4,945	(2,055)
Fuel for Vehicles and Lubricants	204,900	269,775	64,875
Tires & Tubes	22,200	19,974	(2,226)
Other Materials and Supplies		8,233	8,233
Safety	4,500	7,735	3,235
Fleet Insurance	96,200	99,108	2,908
Snow Removal		3,586	3,586
Ishpeming Facility Operations	120,000	7,446	(112,554)
Rent	9,500	600	(8,900)
Utilities		63,163	63,163
Interest		23,509	23,509
Miscellaneous		16,994	16,994
Depreciation		<u>360,732</u>	<u>360,732</u>
Total Operations	<u>1,610,300</u>	<u>2,047,505</u>	<u>437,205</u>
 TOTAL EXPENDITURES	 <u>\$ 2,320,400</u>	 <u>\$ 2,877,656</u>	 <u>\$ 557,256</u>

Budget Revenues

For the year ended September 30, 2006, we experienced an approximate 15 percent increase in fare revenues over budgeted fare revenues. Special contract fares were favorably increased by one of our largest clients subsequent to the negotiations of an annual contract. Intercity ticket sales, and consequently our earned commissions, increased by approximately 18 percent over budget. We budgeted federal operating assistance at 15 percent of eligible expenses, but actual assistance was approved at 17 percent, resulting in a favorable variance of approximately \$128,000.

For FY2006 we experienced a loss in charter revenues. These revenues were drastically reduced as a result of mandated regulations for public transit authorities to curb private charter contracts. Budgeted revenues for one state and one federal grant were not realized due to the cancellation of these grants.

REVENUES	Adopted FY2006 Budget	Actual FY2006 Revenues	Variance
Marquette Routes	\$ 27,800	\$ 33,400	\$ 5,600
Ishpeming Routes	31,400	33,045	1,645
K I Sawyer Routes	18,200	28,059	9,859
Marquette Shopper's Shuttle	4,400	4,421	21
Trowbridge Routes	4,400	5,474	1,074
Shopper's Shuttle	3,900	4,380	480
Negaunee Shuttle	1,200	1,463	263
Marquette City Small Bus	19,000	19,352	352
Ishpeming Small Bus	11,000	9,401	(1,599)
Out-County Small Bus	35,100	43,665	8,565
Special Service Fares	3,300	1,849	(1,451)
Special Contract Fares	124,000	138,935	14,935
Freight	700	207	(493)
Charter	12,000	2,545	(9,455)
Trolley Charter	400	2,045	1,645
Greyhound Bus Shortage	3,000	3,125	125
Miscellaneous	300	13,344	13,044
Inter-City Ticket Commissions	16,600	20,198	3,598
Vending Machines	400	195	(205)
Ad Valorem Tax	882,300	865,343	(16,957)
State Form Operating Assistance	885,400	934,544	49,144
State Special Services Grant	54,600	44,416	(10,184)
Federal RTAP Grant	1,500		(1,500)
Bus Rehabilitation - State	12,000		(12,000)
Federal Operating Assistance	284,500	412,479	127,979
Interest Earnings	3,200	14,033	10,833
Gain on Sale of Fixed Asset		2,849	2,849
Prior Year's Grant Adjustment		5,421	5,421
TOTAL REVENUES	\$ 2,440,600	\$ 2,644,188	\$ 203,588

Capital Asset and Debt Administration

As of September 30, 2006, the Authority had \$8,147,825 in capital assets purchased with state and federal grants and \$434,538 purchased with Authority funds. The capital assets included buildings and land of \$5,865,177 and vehicles and other equipment totaling \$3,234,030. The Authority had a balance of \$60,419 to pay on a state infrastructure bank loan for an Ishpeming operations facility. As of September 30, 2006, the Authority had a balance of \$700,000 to pay on a state infrastructure bank loan for the construction of the new Marquette area operations facility.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the:

Marquette County Transit Authority
1325 Commerce Drive
Marquette, Michigan 49855
(906) 225-1283
marqtran@miuplink.net



MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

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American Institute of CPA's
Michigan Association of CPA's

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marquette County Transit Authority
Marquette, Michigan

We have audited the accompanying financial statements of Marquette County Transit Authority (Authority) as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marquette County Transit Authority as of September 30, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2007, on our consideration of Marquette County Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



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Board of Directors
Marquette County Transit Authority

The management's discussion and analysis on pages one through six is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplemental and compliance schedules, and the schedule of expenditures of federal and state awards listed in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Transportation and by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Makela, Tautant, Hill & Nardi, P.C.

January 18, 2007

BALANCE SHEETS

MARQUETTE COUNTY TRANSIT AUTHORITY

	September 30	
	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 397,708	\$ 272,190
Receivables:		
Trade accounts	40,978	30,559
Due from federal government	380,879	207,601
Due from State of Michigan	8,522	
Due from local unit	104,263	104,263
Inventory	145,605	157,804
Prepaid expenses	13,230	16,389
TOTAL CURRENT ASSETS	1,091,185	788,806
CAPITAL ASSETS		
Property, plant, and equipment	8,582,363	8,620,561
Less accumulated depreciation	(2,608,073)	(2,505,764)
NET CAPITAL ASSETS	5,974,290	6,114,797
TOTAL ASSETS	\$ 7,065,475	\$ 6,903,603

	September 30	
	2006	2005
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 128,930	\$ 31,005
Accrued interest	28,066	7,066
Due to State of Michigan	142,232	39,373
Accrued expenses:		
Salaries and wages	54,408	46,500
FICA withholding	3,603	3,206
Compensated absences	149,172	168,590
Unearned revenue	23,299	24,403
Current portion of debt--due within one year	714,797	14,227
TOTAL CURRENT LIABILITIES	1,244,507	334,370
LONG-TERM LIABILITIES		
Notes payable--due in more than one year	31,395	746,192
TOTAL LIABILITIES	1,275,902	1,080,562
NET ASSETS		
Invested in capital assets, net of related debt	5,228,098	5,354,378
Restricted for capital project	125,000	295,833
Unrestricted	436,475	172,830
TOTAL NET ASSETS	5,789,573	5,823,041
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,065,475</u>	<u>\$ 6,903,603</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2006	2005
Operating revenues (Schedule 1)	\$ 328,243	\$ 375,833
Operating expenses (Schedule 2)	<u>2,877,656</u>	<u>2,988,263</u>
OPERATING LOSS	(2,549,413)	(2,612,430)
Non-operating revenues--local (Schedule 3a)	925,618	864,787
Non-operating revenues--state and federal (Schedule 3b)	<u>1,390,327</u>	<u>1,301,099</u>
LOSS BEFORE CONTRIBUTIONS	(233,468)	(446,544)
Capital Contributions:		
Capital asset additions funded with state and federal capital grants	<u>200,000</u>	<u>1,521,718</u>
(DECREASE) INCREASE IN NET ASSETS	(33,468)	1,075,174
Net assets at beginning of year	<u>5,823,041</u>	<u>4,747,867</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,789,573</u>	<u>\$ 5,823,041</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2006	2005
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	\$ 364,065	\$ 392,728
Cash operating grants received from other governments	2,198,871	2,199,333
Cash received from interest	14,033	6,080
Cash paid for interest	(2,509)	(12,776)
Cash paid to employees for services	(1,230,734)	(1,317,035)
Cash paid to suppliers of goods and services	(1,058,757)	(1,484,176)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	284,969	(215,846)
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from capital grants	75,000	1,521,718
Principal repayments on long-term debt	(14,227)	(1,013,680)
Payments for capital acquisitions	(220,224)	(1,795,039)
NET CASH FLOWS (USED) BY CAPITAL FINANCING ACTIVITIES	(159,451)	(1,287,001)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Proceeds from sales and maturities of investment securities		18,759
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	0	18,759
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125,518	(1,484,088)
Cash and cash equivalents at beginning of year	272,190	1,756,278
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 397,708	\$ 272,190
Net operating loss	\$ (233,469)	\$ (446,544)
Adjustments to reconcile net operating loss to cash provided (used) by operating activities:		
Depreciation	360,731	405,469
(Increase) Decrease in:		
Trade accounts receivable	(10,419)	(908)
Due from federal government	(48,278)	(206,965)
Due from State of Michigan	(8,522)	247,713
Due from local units		12,603
Inventory	12,199	(34,440)
Prepaid expenses	3,159	5,089
Increase (Decrease) in:		
Accounts payable	97,925	(21,212)
Due to federal government		(939)
Due to State of Michigan	102,860	(138,610)
Due to R-Tran		(26,292)
Accrued expenses	9,887	(13,391)
Unearned revenue	(1,104)	2,581
NET CASH FLOWS (USED) BY OPERATING ACTIVITIES	\$ 284,969	\$ (215,846)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE COUNTY TRANSIT AUTHORITY

September 30, 2006

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Marquette County Transit Authority (Authority) and the methods of applying those policies, which materially affect the determination of the financial position, changes in net assets, and results of operations are summarized below.

Description of Reporting Entity: The Marquette County Transit Authority (Authority) was created by an Interlocal Agreement under Act 7 of the Public Acts of 1967 on October 1, 1985, by the County of Marquette; the cities of Ishpeming and Marquette; the Marquette Transit Authority; and the Ishpeming Transportation Authority to provide a cost effective and efficient public transportation system through the consolidation of the entities into a unified county system. The separate consolidated legal entity was designated as the Marquette County Transit Authority. The Authority provides public transportation to residents of the County of Marquette, Michigan.

The Marquette County Transit Authority is considered to be an independent agency of the County of Marquette for accounting purposes and is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP.

The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographical boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component unit organizations included in the Authority's reporting entity.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. These financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting: The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into the three components of: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Budget:

The Authority follows these procedures in establishing budgetary data:

- a) Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenses, and the means of financing them, and is stated on a basis consistent with GAAP.
- b) The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c) Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post-transfer Authority Board approval.
- d) Formal budgetary integration is employed as a management control device during the year.
- e) Budgetary authority lapses at year-end.
- f) The Authority Board has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur, and the amount of the deviation can be determined. Once originally adopted, the budget is adjusted quarterly as necessary.

Cash and Cash Equivalents: The Authority has defined cash and cash equivalents to include cash on hand, demand deposits, and time deposits with an initial maturity of three months or less.

Deposits and Investments: The Authority reports investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The Authority did not have any investments as of September 30, 2006 or 2005.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments as described above, and obligations of the State of Michigan or any of its political subdivisions, that at the time of purchase, are rated as investment grade by not less than one standard rating service.

Receivables

Revenues earned, but not yet received, as of the fiscal year end are recorded as a receivable on the Authority's balance sheet. A provision for doubtful accounts is not necessary because all significant amounts are collected within two months of the balance sheet date or are due from other governmental units.

Inventory

The Authority utilizes a perpetual inventory system for replacement parts accounted for by the consumption method and valued at the lower of cost or market.

Capital Assets and Depreciation

Capital assets are stated at original cost at the date of acquisition, if purchased, or at fair market value at the date of donation. Costs relating to maintenance and repairs are charged to expenses, whereas those for renewals and improvements, when significant in amount, are capitalized. Provisions for depreciation are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives in accordance with guidelines provided by the Michigan Department of Transportation (MDOT). Depreciation of assets acquired with capital grant funds, which is the majority of capital assets, is charged against contributed capital accounts in the balance sheet.

Depreciation of all exhaustible capital assets used by the Authority is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. The estimated useful lives are as follows:

Building	40 years
Bus Shelters & Signs	4-10 years
Equipment	4-10 years
Buses	4-10 years

Unearned Revenue

The Authority's sales of fare tickets are recorded as unearned revenue until the tickets are redeemed in exchange for transportation services.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Grants

Revenue from the federal government and state of Michigan operating grants are recorded as earned when expenses are incurred. Adjustments made to the operating grants by MDOT are recognized in the year they become measurable. The unearned portion of grant contracts received, if any, are reported as deferred revenue until such time as expenses are incurred.

Capital grants are reported as additions to contributed capital accounts on the balance sheet when qualifying expenses are incurred. The unexpended portions of capital grant contracts, if any, are reported as a liability to the issuing grantor, except for those amounts that are contractually obligated but not expended.

Revenue

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its principal ongoing operations. The principal operating revenues of the Authority are charges to customers for their transportation. Operating expenses for the Authority include the cost of providing rides to customers, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted only when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or other government regulations.

It is the Authority's policy to first apply restricted resources to expenses that are incurred for purposes for which both restricted and unrestricted net assets are available.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Comparative Data

Summaries of comparative data for prior years have been presented in the accompanying financial statements to provide an understanding of changes in the Authority's financial position, results of operations, and cash flows.

NOTE B--CASH AND INVESTMENTS

Cash and cash equivalents, included in the basic financial statements as of September 30, 2006, consist of the following:

Basic Financial Statements:	
Cash and cash equivalents	<u>\$ 397,708</u>

Cash and cash equivalents can also be summarized into the following categories:

	<u>Cash & Cash Equivalents</u>
Cash in checking	\$ 6,793
Money market funds	21,775
Savings funds	367,570
Cash on hand	<u>1,570</u>
	<u>\$ 397,708</u>

Custodial Credit Risk

At year-end, the carrying amount of the Authority's deposits with financial institutions was \$397,708 and the balance per bank statement was \$457,988. Of the bank balance, \$169,418 of the Authority's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$288,570 was uninsured and uncollateralized. Therefore, the Authority is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the Authority, subject to minimal credit risk.

The Authority did not have any investments as of September 30, 2006 or 2005.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE C--DUE FROM GOVERNMENTAL UNITS

A summary of amounts due from governmental units as of September 30, 2006, is as follows:

	Federal	State	Local	Total
Operating Assistance Grant Contract #2002-0064/Z22		\$ 8,522		\$ 8,522
Operating Assistance Grant Contract #2002-0064/Z23	\$ 135,879			135,879
Facility Construction Grant Contract #2002-0064/Z20	125,000			
Federal portion due from sale of MTC	120,000			120,000
Due from City for administrative expenses			\$ 104,263	104,263
AMOUNT DUE FROM OTHER GOVERNMENTAL UNITS AT SEPTEMBER 30, 2006	<u>\$ 380,879</u>	<u>\$ 8,522</u>	<u>\$ 104,263</u>	<u>\$ 368,664</u>

NOTE D--CAPITAL ASSETS

A summary of capital assets is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Purchased with Authority Funds				
Land	\$ 21,000			\$ 21,000
Buildings	173,298	\$ 31,158		204,456
Bus shelters and signs	3,486	6,785		10,271
Vehicles	56,325			56,325
Other equipment	35,205	107,281		142,486
	289,314	145,224	\$ 0	434,538
Accumulated depreciation	(171,234)	(43,636)		(214,870)
Net purchased with Authority Funds	<u>118,080</u>	<u>101,588</u>	<u>0</u>	<u>219,668</u>
Purchased with capital grants				
Land	248,754			248,754
Land improvements	30,891			30,891
Buildings	5,285,076	75,000		5,360,076
Bus shelters and signs	24,376			24,376
Vehicles	2,561,855		(258,422)	2,820,277
Other equipment	180,295			180,295
	8,331,247	75,000	(258,422)	8,147,825
Accumulated depreciation	(2,334,530)	(317,095)	258,422	(2,393,203)
Net purchased with capital grants	<u>5,996,717</u>	<u>(242,095)</u>	<u></u>	<u>5,754,622</u>
NET CAPITAL ASSETS	<u>\$ 6,114,797</u>	<u>\$ (140,507)</u>	<u>\$ 0</u>	<u>\$ 5,974,290</u>

When federal or state funded assets are taken out of public transportation service the disposition of the assets is determined by MDOT.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE E--COMPENSATED ABSENCES

Employees earn sick leave at the rate of one (1) day per month, not to exceed twelve (12) days per year. Upon retirement or termination, employees in good standing with at least ten (10) years of service, will be paid one-half (1/2) of such sick leave accumulated at that time at their current rate of pay. Non-union employees with service dates beginning after July 1, 1983, can accumulate unlimited sick leave, with a maximum payment of one hundred twenty (120) days; however, non-union employees with service dates beginning before July 1, 1983, can accumulate and can receive payment on an unlimited amount of sick leave. Union employees may accumulate sick leave to a maximum of one hundred twenty (120) days with payment upon retirement or death at one-half (1/2) of the time accumulated at their current rate of pay. Once each year, employees may elect to sell back to the Authority any amount of accrued sick leave in excess of twenty days. Employees earn vacation leave based upon hours worked during the year and length of employment. Upon retirement or termination, employees are paid for all such outstanding days accumulated at their current rate of pay, with a maximum accumulation of thirty (30) days.

NOTE F--LONG-TERM DEBT

The Authority entered into a general loan contract with MDOT on September 16, 1999, for the purchase of a maintenance and operational facility in Ishpeming, Michigan. The loan is payable in annual installments of \$16,644 for ten years at a fixed interest rate of four percent. A summary of the changes in long-term debt as of September 30, 2006, is as follows:

Balance at September 30, 2005	\$ 60,419
Less principal payments	<u>14,227</u>
Balance at September 30, 2006	<u><u>\$ 46,192</u></u>

The schedule of annual principal and interest payments for the next three years is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 14,797	\$ 1,847	\$ 16,644
2008	15,388	1,256	16,644
2009	<u>16,007</u>	<u>640</u>	<u>16,647</u>
TOTALS	<u><u>\$ 46,192</u></u>	<u><u>\$ 3,743</u></u>	<u><u>\$ 49,935</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE F--LONG-TERM DEBT--Continued

The Authority entered into a general loan contract with MDOT on August 27, 2005, for transportation infrastructure improvements of the Marquette County Transit Authority's facility project in Marquette, Michigan. The loan is payable on or before August 27, 2007, including interest at a rate of three percent. A summary of the changes in long-term debt as of September 30, 2006, is as follows:

Balance at September 30, 2005	\$ 700,000
Loan funds received	
Less principal payments	<u> </u>
Balance at September 30, 2006	<u>\$ 700,000</u>

The schedule of annual principal and interest payments for the life of the loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	<u>\$ 700,000</u>	<u>\$ 48,200</u>	<u>\$ 748,200</u>
TOTALS	<u>\$ 700,000</u>	<u>\$ 48,200</u>	<u>\$ 748,200</u>

The following is a summary of long-term debt activity for the year ended September 30, 2006:

	<u>September 30, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>September 30, 2006</u>
Ishpeming Facility Loan	\$ 60,419		\$ (14,227)	\$ 46,192
Marquette Facility Loan	<u>700,000</u>	<u> </u>	<u> </u>	<u>700,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 760,419</u>	<u>\$ 0</u>	<u>\$ (14,227)</u>	<u>\$ 746,192</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE G--SCHEDULE OF CONTRIBUTED CAPITAL

	<u>Federal and State</u>	<u>Local</u>	<u>Total</u>
Balance at September 30, 2005	\$ 5,947,481		\$5,947,481
Add--Grants received	200,000		200,000
Less--Depreciation charged on assets acquired with contributed funds	<u>(323,326)</u>		<u>(323,326)</u>
Balance at September 30, 2006	<u>\$ 5,824,155</u>	<u>\$ 0</u>	<u>\$5,824,155</u>

NOTE H--COUNTY OF MARQUETTE SUBSIDY

The County of Marquette contributed \$865,343 and \$825,979 to the Authority from a millage allocation for the years ended September 30, 2006 and 2005, respectively.

NOTE I--COST ALLOCATION PLANS

The Authority has cost allocation plans for all allocated costs, which have been followed in the preparation of the financial statements. The Bus Transit Division of MDOT has approved these plans.

NOTE J--DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System ("System" or "MERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for Michigan municipal employees. MERS issues a publicly available financial report that includes the financial statements and required supplementary information for the entire System. The report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

The system provides retirement, disability and death benefits to plan members and their beneficiaries. All full-time employees of the Authority are eligible to participate in the System. State statute and the Authority's Board of Directors establish benefit provisions and all other requirements.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE J--DEFINED BENEFIT PENSION PLAN--Continued

Funding Policy

Authority employees who are members of the bargaining unit are required to contribute four percent of their annual compensation to the System, as established by negotiation with the Authority's bargaining unit. Full-time employees, who are not members of the bargaining unit, are not required to contribute to the System as established by the Board of Directors. The Authority is required to contribute the remaining amounts necessary to fund the System using the actuarial basis specified by statute.

Annual Pension Costs

The Authority's annual pension cost of \$49,821 and \$52,284, respectively, for the years ended September 30, 2006 and 2005, was equal to the required and actual contribution. The annual required contribution is actuarially determined. Significant actuarial assumptions used include (a) a rate of return on the investment of 8 percent per year for present and future assets, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases based upon seniority and merit. The unfunded actuarial accrued liability is being amortized over 30 years based on the level percentage of payroll method.

Three-year trend information is as follows:

	Fiscal Year Ended September 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 51,466	\$ 52,284	\$ 49,821
Percentage of APC contributed	100%	100%	100%
Net pension obligation			

	Actuarial Valuation as of December		
	2003	2004	2005
Actuarial value of assets	\$ 1,438,518	\$ 1,606,688	\$ 1,716,724
Actuarial accrued liability	1,660,177	1,872,798	1,851,767
Unfunded AAL (UAAL)	221,659	266,110	135,043
Funded ratio	87%	86%	93%
Covered payroll	750,453	731,433	665,723
UAAL as a percentage of covered payroll	30%	36%	20%

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE COUNTY TRANSIT AUTHORITY

NOTE K--RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority was unable to obtain vehicle and general liability insurance at a cost it considered to be economically justifiable. The Authority joined other transit authorities in the Michigan Transit Pool Direct Property Damage Trust Fund and Liability Trust Fund. These funds operate as a common risk management and insurance program. The Authority makes annual contributions to the pool for its vehicle and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member contributions. The Direct Property Damage Trust Fund will re-insure through commercial companies for claims in excess of \$50,000 for each insured event. The liability declaration agreement reduces its exposure to large losses to \$2,000,000 per occurrence. An excess policy provides an additional \$4,000,000 in coverage.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L--BENEFIT PLANS

The Authority has adopted a Medical Care Expense Plan created in accordance with Internal Revenue Service Code Sections 105, 125, and 129. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified plan participants administered by the American Family Life Assurance Company totaled \$6,926 and \$9,856 for the years ended September 30, 2006 and 2005, respectively. In addition, voluntary contributions made toward the medical plan administered by the Michigan Employee Benefit Service, at five percent of premiums charged, totaled \$11,089 and \$1,654 for the years ended September 30, 2006 and 2005.

The Authority also belongs to a Deferred Compensation Plan created in accordance with Internal Revenue Service Code Section 457. The Authority does not make any contributions to the plan; however, voluntary contributions made by qualified participants to the plan administered by Variable Annuity Life Insurance Company totaled \$16,110 and \$20,070 for the years ended September 30, 2006 and 2005.

STATEMENTS OF OPERATING REVENUES
(Schedule 1)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2006	2005
OPERATING REVENUES		
Linehaul (farebox)	\$ 108,780	\$ 92,275
Demand--response (farebox)	75,731	78,442
Special contract fares	138,935	133,739
Charter services	4,590	7,953
Freight	207	780
Contract adjustments		62,644
TOTAL OPERATING REVENUES	<u>\$ 328,243</u>	<u>\$ 375,833</u>

STATEMENTS OF OPERATING EXPENSES
(Schedule 2)

MARQUETTE COUNTY TRANSIT AUTHORITY

				Year Ended September 30	
	Operations	Maintenance	Administration	2006	2005
LABOR					
Operators' wages	\$ 762,997			\$ 762,997	\$ 800,353
Other salaries and wages	37,761	\$ 125,445	\$ 213,736	376,942	404,336
Dispatchers' wages and salaries	79,682			79,682	96,468
FRINGE BENEFITS	268,965	65,057	89,069	423,091	510,833
SERVICES--Other	17,276	33,022	9,657	59,955	88,737
MATERIALS AND SUPPLIES CONSUMED					
Fuel and lubricants	269,774			269,774	197,695
Tires and tubes	19,974			19,974	22,790
Other materials and supplies	20,913	198,494	61,319	280,726	200,768
UTILITIES	63,165		4,332	67,497	45,483
CASUALTY AND LIABILITY COSTS					
Premiums for public liability and property damage insurance	99,108		9,251	108,359	119,281
MISCELLANEOUS					
Advertising/promotion, media			5,058	5,058	5,995
Other	4,528		15,711	20,239	49,696
LOAN INTEREST	23,509			23,509	15,033
LEASES AND RENTALS	19,122			19,122	25,327
DEPRECIATION	360,731			360,731	405,468
TOTAL OPERATING EXPENSES	<u>\$2,047,505</u>	<u>\$ 422,018</u>	<u>\$ 408,133</u>	<u>\$2,877,656</u>	<u>\$2,988,263</u>

STATEMENTS OF NON-OPERATING REVENUES--LOCAL
(Schedule 3a)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2006	2005
<hr/>		
NON-OPERATING REVENUES--LOCAL		
Local operating millage--County of Marquette	\$ 865,343	\$ 825,978
Interest income	14,033	6,080
MTC administration fee		1,710
Inter-city ticket commissions	20,198	16,093
Miscellaneous	<u>26,044</u>	<u>14,926</u>
TOTAL NON-OPERATING REVENUES--LOCAL	<u>\$ 925,618</u>	<u>\$ 864,787</u>

STATEMENTS OF NON-OPERATING REVENUES--STATE AND FEDERAL
(Schedule 3b)

MARQUETTE COUNTY TRANSIT AUTHORITY

	Year Ended September 30	
	2006	2005
<hr/>		
STATE OF MICHIGAN NON-OPERATING GRANTS		
Local Bus Operating Assistance	\$ 934,544	\$ 945,062
Specialized Services	44,416	49,634
TOTAL STATE OF MICHIGAN NON-OPERATING REVENUES	<u>978,960</u>	<u>994,696</u>
FEDERAL NON-OPERATING GRANTS		
U.S. Department of Transportation Operating Assistance	411,367	304,878
RTAP		1,525
TOTAL FEDERAL NON-OPERATING REVENUES	<u>411,367</u>	<u>306,403</u>
TOTAL NON-OPERATING REVENUES--STATE AND FEDERAL	<u>\$1,390,327</u>	<u>\$1,301,099</u>

STATEMENT OF ELIGIBLE EXPENSES BY CONTRACT AND GENERAL OPERATIONS
(Schedule 4)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

	Specialized Services	General Operations	Total
Labor	\$ 56,012	\$ 1,163,609	\$ 1,219,621
Fringe benefits	19,431	403,660	423,091
Services	2,754	57,201	59,955
Material and supplies	26,199	544,275	570,474
Utilities	3,101	64,396	67,497
Casualty and liability costs	4,977	103,382	108,359
Miscellaneous	1,108	24,189	25,297
Loan interest	111	23,398	23,509
Leases and rentals	379	18,743	19,122
Depreciation		360,731	360,731
TOTAL OPERATING EXPENSES	114,072	2,763,584	2,877,656
Less ineligible expenses		343,737	343,737
TOTAL ELIGIBLE EXPENSES	<u>\$ 114,072</u>	<u>\$ 2,419,847</u>	<u>\$ 2,533,919</u>

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

	Federal Section 18 2002-0064/Z23 10/01/05-09/30/06	State Operating Assistance 10/01/05-09/30/06
EXPENSES		
Labor	\$ 1,163,609	\$ 1,163,609
Fringe benefits	403,660	403,660
Services	57,201	57,201
Materials and supplies	544,275	544,275
Utilities	64,396	64,396
Casualty and liability costs	103,382	103,382
Miscellaneous	24,189	24,189
Loan interest	23,398	23,398
Leases and rentals	18,743	18,743
Depreciation	360,731	360,731
TOTAL EXPENSES	2,763,584	2,763,584
LESS INELIGIBLE EXPENSES		
Depreciation	317,094	317,094
Charter expenses	1,209	1,209
Miscellaneous revenue	809	809
Freight revenue	207	207
Interest expense	23,509	23,509
MPTA dues	193	193
Miscellaneous expense	716	716
TOTAL INELIGIBLE EXPENSES	343,737	343,737
NET ELIGIBLE EXPENSES	\$ 2,419,847	\$ 2,419,847
MAXIMUM SECTION 18 REIMBURSEMENT		
The lesser of 17 percent of net eligible expenses--\$411,367 or contract award--\$451,767	\$ 411,367	
MAXIMUM LOCAL BUS OPERATING ASSISTANCE (ACT 51)		
The lesser of 38.62 percent of net eligible expenses--\$934,544 or state operating assistance budget cap--\$1,043,171		\$ 934,544



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Marquette County Transit Authority
Marquette, Michigan

We have audited the financial statements of Marquette County Transit Authority as of and for the year ended September 30, 2006 and have issued our report thereon dated January 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marquette County Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marquette County Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Directors
Marquette County Transit Authority

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Makela, Tautant, Hill & Nardi, P.C.

January 18, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Marquette County Transit Authority
Marquette, Michigan

Compliance

We have audited the compliance of Marquette County Transit Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Marquette County Transit Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Marquette County Transit Authority's management. Our responsibility is to express an opinion on Marquette County Transit Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marquette County Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marquette County Transit Authority's compliance with those requirements.

In our opinion, Marquette County Transit Authority complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Marquette County Transit Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we



To the Board of Directors
Marquette County Transit Authority

considered Marquette County Transit Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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Makela, Toutant, Hill & Nardi, P.C.

January 18, 2007

SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

Program Title	Federal CFDA Number	State Grantor Number	Program Award or Amount	Federal Revenue	State Revenue	Disbursements/ Expenditures	Grant Amount Remaining
U.S. Department of Transportation							
Passed through MDOT:							
Capital Assistance - Section 5311	20.509	2002-0064/Z20	\$ 125,000	\$ 125,000		\$ 125,000	
Capital Assistance - Section 5309	20.500	2002-0064/Z21	75,000	60,000	\$ 15,000	75,000	
Capital Assistance - Section	20.500	2002-0064/Z24	343,205				\$ 343,205
Capital Assistance - Section 5311	20.509	2002-0064/Z25	125,000				125,000
Capital Assistance - Section	20.500	2002-0064/Z26	591,217				591,217
Capital Assistance - Section	20.500	2002-0064/Z27	704,195				704,195
Capital Assistance - SIB Loan	20.205	2004-0418	700,000	<u>700,000</u>			
				<u>885,000</u>	<u>15,000</u>	<u>200,000</u>	<u>1,763,617</u>
TOTAL CAPITAL ASSISTANCE				<u>\$ 885,000</u>	<u>\$ 15,000</u>	<u>\$ 200,000</u>	<u>\$1,763,617</u>
U.S. Department of Transportation							
Passed through MDOT:							
Operating Assistance - Section 5311	20.509	2002-0064-Z23	\$ 451,767	\$ 411,367		\$ 411,367	
Michigan Department of Transportation:							
Operating Assistance	N/A	N/A	1,043,171		\$ 934,544	934,544	
Specialized Services	N/A	2002-0064/Z17	51,771		44,416	44,416	
				<u>411,367</u>	<u>978,960</u>	<u>978,960</u>	
TOTAL OPERATING ASSISTANCE				<u>\$ 411,367</u>	<u>\$ 978,960</u>	<u>\$ 1,390,327</u>	<u>\$ 0</u>
TOTAL FEDERAL AND STATE FINANCIAL AWARDS				<u>\$1,296,367</u>	<u>\$ 993,960</u>	<u>\$ 1,590,327</u>	<u>\$1,763,617</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS / INELIGIBLE EXPENSES

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

The following summarized the results of the auditing procedures:

- (1) An unqualified opinion was issued on the financial statements.
- (2) The audit did not disclose any noncompliance that is material to the financial statements.
- (3) An unqualified opinion was issued on compliance for major programs.
- (4) The audit did not disclose any findings related to major programs.
- (5) The major program was Federal Transit--Operating Assistance Grant (CFDA# 20.509).
- (6) The threshold used to distinguish between Type A and Type B programs was \$300,000.
- (7) Marquette County Transit Authority does qualify as a low-risk auditee.

The following schedule summarizes those expenses, which are not eligible for reimbursement under the federal and state operating assistance grant formulas:

	<u>Ineligible Expenses / Questioned Costs</u>	
	<u>Federal Section 18 Per OMB Circular A-87</u>	<u>State Operating Assistance Per Revenue and Expense Manual</u>
Urban Mass Transportation Administration:		
A: Operating grants:		
1. Depreciation: Depreciation on contributed capital is an ineligible expense.	\$ 317,094	\$ 317,094
2. Interest expense: Interest expense on the state infrastructure loan is ineligible.	23,509	23,509
3. Charter expenses: Expenses pertaining to charter services are ineligible.	1,209	1,209
4. Miscellaneous revenue: Refunds of expenses reduce eligible costs.	809	809
8. Miscellaneous expenses: Expenses pertaining to rental services are ineligible.	716	716
6. Freight revenue: Expenses pertaining to freight services are ineligible.	207	207
7. Miscellaneous expenses: A percentage of dues paid to MPTA are ineligible.	193	193

REPORT ON PRIOR YEAR AUDIT FINDINGS

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

There were no audit findings for the year ended September 30, 2005.

MILEAGE DATA (Unaudited)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

	Public Transit Mileage	Special Services Mileage	Charter Mileage	Total Mileage
Linehaul:				
1 st Quarter	170,318	N/A	N/A	170,318
2 nd Quarter	167,604	N/A	N/A	167,604
3 rd Quarter	168,961	N/A	N/A	168,961
4 th Quarter	165,830	N/A	N/A	165,830
TOTAL LINEHAUL	672,713			672,713
Demand Response:				
1 st Quarter	68,499	11,828	588	80,915
2 nd Quarter	68,483	11,279	88	79,850
3 rd Quarter	68,017	13,476	297	81,790
4 th Quarter	63,929	12,037	3,312	79,278
TOTAL DEMAND RESPONSE	268,928	48,620	4,285	321,833
TOTAL OPERATION	941,641	48,620	4,285	994,546

VEHICLE HOURS AND PASSENGER DATA (Unaudited)

MARQUETTE COUNTY TRANSIT AUTHORITY

Year Ended September 30, 2006

The Authority does not maintain a breakdown between senior and handicapped passengers for linehaul transportation; therefore, all riders are categorized as regular passengers.

	Public Transit Hours	Regular Passengers	Sr. Citizen Passengers	Senior/ Handicap Passengers	Handicap Passengers	Total Passengers
Linehaul:						
1 st Quarter	6,972	49,132	N/A	N/A	N/A	49,132
2 nd Quarter	6,827	53,808	N/A	N/A	N/A	53,808
3 rd Quarter	6,900	52,388	N/A	N/A	N/A	52,388
4 th Quarter	6,795	45,789	N/A	N/A	N/A	45,789
TOTAL LINEHAUL	27,494	201,117				201,117
Demand Response:						
1 st Quarter	5,496	11,485	3,503	1,374	5,814	22,176
2 nd Quarter	5,540	13,550	3,099	1,146	6,148	23,943
3 rd Quarter	5,358	5,392	3,248	1,146	5,704	15,490
4 th Quarter	5,674	7,837	3,691	1,095	5,905	18,528
TOTAL DEMAND RESPONSE	22,068	38,264	13,541	4,761	23,571	80,137
TOTAL OPERATION	49,562	239,381	13,541	4,761	23,571	281,254